



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the United Heritage Insurance Building, 707 E. United Heritage Court, Meridian, Idaho at 8:30 a.m., October 23, 2001. The following members were present:

Dennis L. Johnson
J. Kirk Sullivan
Susan K. Simmons

Chairman Jody B. Olson was absent. Trustee Pamela I. Ahrens was delayed and joined the meeting at 8:50 a.m. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Doug Dorn	Dorn, Helliesen & Cottle
Brian McGrath	DB Fitzpatrick & Co.
Drew Black	DB Fitzpatrick & Co.
Geoff Bridges	Milliman USA
James Coleman	PERC / Retired Teachers
Charlie Brown	Retired Educators Association of Idaho
Matt Freeman	Legislative Services Office
Randy Yadon	PERSI member
Maria Barratt	DFM
Richelle Sugiyama	PERSI
Cecile McMonigle	PERSI
Rhonda Yadon	PERSI
Carol Boylan	PERSI
Larry Bird	Deloitte and Touche
Mary Dixon	Lower Snake River Teachers Assn.

REGULAR SESSION:

Acting Chairman J. Kirk Sullivan convened the meeting at 8:30 a.m. and thanked Trustee Dennis Johnson for hosting the meeting at the corporate office of United Heritage Insurance.

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Johnson and seconded by Trustee Simmons, the Board unanimously approved the minutes of the September 25, 2001 regular meeting of the Retirement Board.

PORTFOLIO

Monthly Portfolio Chief Investment Officer Robert Maynard discussed his investment report dated October 18, saying it has been a good month in regards to the market; the PERSI fund is above the point where it was on September 10, the day before the World Trade Center collapse. As the market turns around, the PERSI recovery will be slower because we are in a defensive position. The recent rebalancing of the portfolio tended to help, but we are still at a negative 7.7% for the fiscal year to date. His report comment noted:

“The events of September 11th led to huge declines in consumer confidence, consumer spending, and business activity during the month, some of the declines being at record levels. The overwhelming consensus is that the economy is in recession, with recovery expectations pushed back to the third quarter of next year. Nonetheless, the capital markets, and the PERSI portfolio, is back to levels actually above those prior to September 11th. The 50 basis point drop in interest rates by the Fed, early anecdotal indications of a consumer rebound, and expectations of fiscal stimulus, all have led to an equity market rebound since the two weeks after Sept. 11th. In the current month, growth managers such as Barings and Columbus Circle, are again showing strength, with value and GARP managers having some difficulty. All managers are either within their expected characteristics or have reasonable explanations for slight deviations.”

Mr. Maynard told the Board that the Idaho Commercial Mortgage Program managed by D.B. Fitzpatrick has been the top performing fixed income portfolio over all longer time periods. When asked whether or not the mortgage portfolio is experiencing an increase in refinancing due to the low interest rate environment, Brian McGrath replied that refinancing has been moderate and that most loans with high coupon rates were refinanced earlier in the year when rates were initially lowered. Mr. Maynard is scheduling a report on private equity performance for the November Board meeting. He reviewed the portion of his report dealing with the Choice Plan investment managers. Mr. Maynard discussed the revised format of the monthly report, noting that it has been expanded to provide a month-end performance summary as well as individual pages for each actively-managed portfolio as of month-end. He also explained that the staff monitors and reviews the performance and individual portfolios daily to ensure that managers have not moved out of their mandates.

Mr. Maynard is planning an investment manager symposium May 14-15 2002 in Boise. This will be the first time all PERSI managers will be brought together at one time. The purpose is to get a clear idea and understanding of how each contributes to our goals and to discuss major drivers or concerns in the current market environment. Mr. Winkle told the Board that the

November meeting will have a very full agenda as it will also include a report and discussion by Mercer on the 401(k) performance.

Other Investment Business: Acting Chairman Sullivan asked the managers who were present for their comments. Brian McGrath said he believes we are close to the bottom of the interest rate cycle. Some economists feel that the Feds have over reacted with such a sharp reduction of rates; if the US economy responds, there is a possibility of some inflationary pressures in a year or two. Mr. Maynard said we have rebalanced the fund by reducing the amount invested in TIPS. Mr. Sullivan thanked Richelle Sugiyama for the new report format.

FISCAL

FY 2001 Audit Results: Larry Bird of Deloitte and Touche provided a draft of the audit report and letter of comments for the year ended June 30, 2001. He reviewed the comments. There was some discussion about the disaster recovery policy. There were no bidders on the Request for Proposals and staff is working with the Division of Purchasing on this issue. Trustee Ahrens suggested Rich Elwood as a resource through ITRMC as they assist state agencies with their plans. Trustee Simmons said she had met with the auditors and had gone through the report and comments in detail. She said the Board appreciates the work PERSI staff does providing the data to the auditors. Mr. Sullivan echoed her appreciation. Mr. Bird said this was a good audit and PERSI staff was very responsive to the auditors. Mr. Maynard said he will ask Hamilton Lane to become formally involved in signing off on the private equity values in the future. Mr. Winkle said the final audit will be brought back to the Board for official approval at the November Board meeting.

Mr. Winkle introduced Maria Barratt who is our new Financial Analyst at the Division of Financial Management and Matt Freeman, our new analyst at the Legislative Budget Office.

GFOA Award – Mr. Monroe said we have received the award and the presentation has been scheduled for the November Board meeting.

Expense Reports – Mr. Monroe reviewed the Portfolio, Administrative and Travel reports which had previously been furnished to the Board. Mr. Winkle said staff will travel in November to Washington to attend the Northwest Pension Conference with peers from Washington, Alaska, and Oregon.

EXECUTIVE DIRECTOR

Preliminary Sick Leave Valuation: The Board had previously received an October 17, 2001 memorandum regarding the sick leave valuation results. Geoff Bridges from Milliman, USA reviewed the report. Mr. Winkle noted that when the sick leave cap for state retirees was raised by the legislators last year, it fit within the allowable contribution rate and no rate increase was needed. Actual sick leave data is available for state employees, but only projections are currently available for schools; we hope to have actual data on school employees by the next time the evaluation is completed

Preliminary FRF Valuation: Mr. Bridges then reviewed the FRF actuarial data which showed that due to investment loss, the amortization period remaining at July 1, 2001 for the FRF plan is 16.9 years. The higher COLA last year contributed 1.2 years to the amortization.

Trustee Ahrens asked how many people are still in this closed plan. Appendix C of the report showed 526 people receiving benefits including disability retirees and named survivors and 103 active members. This report will be finalized and brought back for approval in November.

New Employers: By motion duly made by Trustee Ahrens, seconded by Trustee Simmons and unanimously approved, the Board welcomed the Franklin County Library District and the City of Dover as new PERSI employers with effective dates of entry of October 1, 2001. In the same motion, the Mika Kidd Island Fire Protection District in Coeur d'Alene was admitted with an effective entry date of November 1, 2001.

Phased Retirement Discussion: Using a PowerPoint presentation, Mr. Winkle reviewed workforce issues concerning the IRS Rules on re-employment, PERSI Law on the issue and discussed proposals from members. He reviewed the workforce issue and annual retirements by employer. Labor supply demographics indicate that as the baby boomers retire, there will be fewer replacement employees available. The concept of changing job duties to phase employees into retirement and provide incentives to work past normal retirement, perhaps with a more flexible work schedule was discussed. Mr. Winkle said wants to keep the Board informed of an issue that is being discussed by employers and members. He said when early retirement issues are investigated, the matter of discrimination always is a factor. If plans are based on age, they always fail the discrimination tests. Mr. Winkle said employers currently may purchase up to four years of service for members and can also make contributions to their employees' 401(k) plans as retirement incentives.

Status Update: The Board had previously received the monthly status memo that summarized the projects in which PERSI is involved. The Watson Wyatt project is being closed this week; the Super Saver and Choice plan merger is underway and the Education Program is about 30% completed. That program has been reconfigured and we will have several part-time trainers working around the state. Our two staff trainers will each work with part-time trainers to cover more ground. Mr. Winkle said we are working with employers to accomplish electronic transmitting of data and funds so we can invest quickly and accurately. Handwritten transmittals take more than a week to process, which is not acceptable to us from a fiduciary standpoint.

Trustee Simmons said Deloitte & Touche will be auditing the Super Saver/Choice Plan merger earlier than usual to be sure it is done correctly. Annual statements are being mailed in batches by zip code to our members.

FUTURE BOARD MEETINGS

Proposed Board meeting dates for 2002 had been distributed to the Trustees for their review. An adoption of those dates is expected at the November meeting.

Tuesday, November 27, 2001, 8:30 a.m., Boise - PERSI office

Tuesday, December 18, 2001, 8:30 a.m., Boise - PERSI office

Adjournment: Jim Coleman introduced Mary Dixon, president of the Lower Snake River Teachers Assn. who had attended the meeting; the Trustees thanked her for attending the meeting. There being no further business to conduct, by motion duly made by Trustee Johnson,

seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 10:10 a.m. Mr. Johnson then provided a tour of the building to interested parties.

J. Kirk Sullivan
Acting Chairman

Alan H. Winkle
Executive Director